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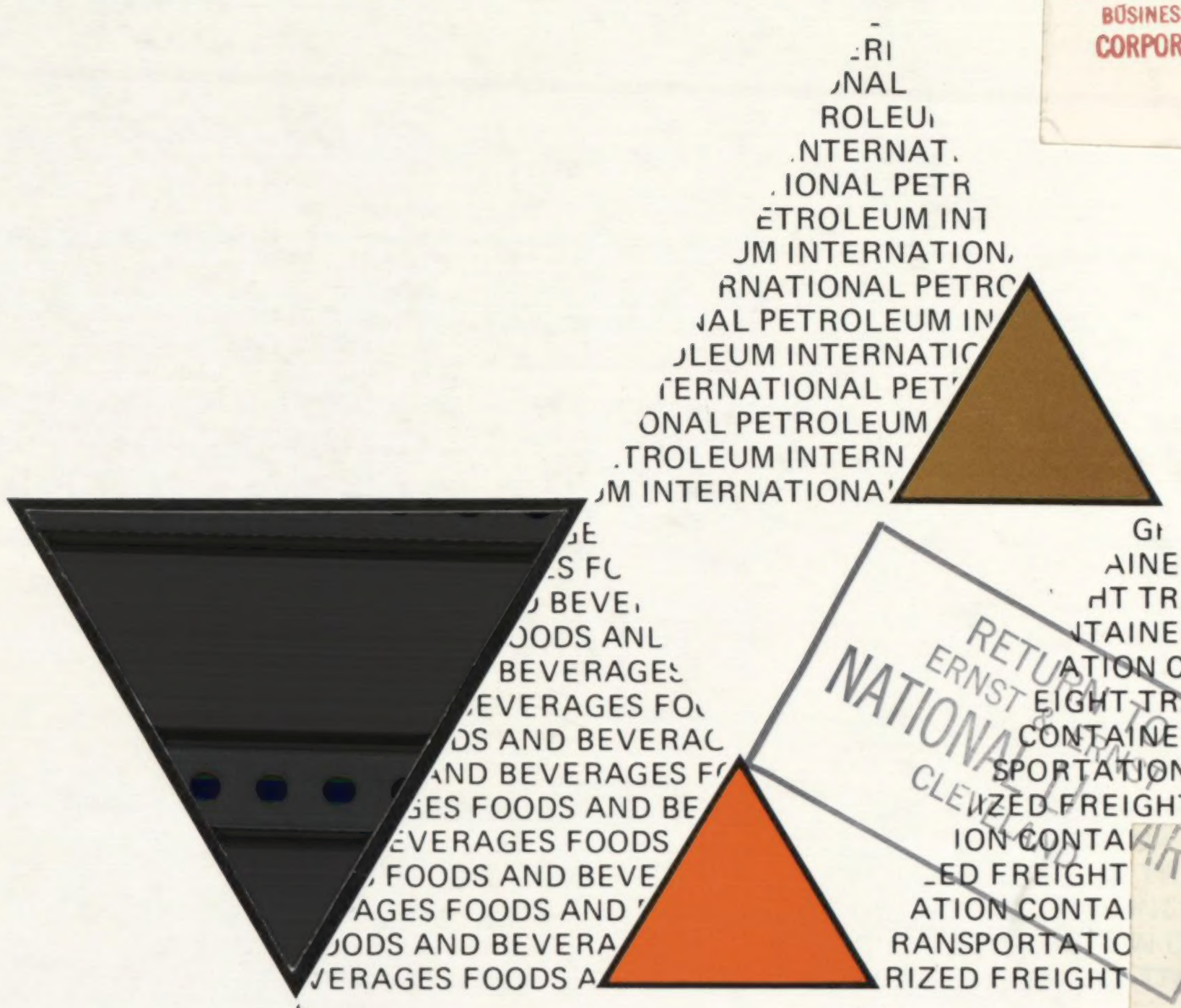

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ANNUAL REPORT 1971

R.J. REYNOLDS INDUSTRIES, INC.

RJR

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RJR

Comparative Summary

Consolidated
(Dollar Amounts in Thousands Except Share Statistics)

	1971	1970
Net sales and operating revenues	$2,546,012	$2,484,599
Net earnings	225,928	201,885
Per common share	5.10	4.56
Per common share—assuming full dilution	4.54	4.10
Net earnings as a percentage of net sales and operating revenues	8.87%	8.13%
Dividends on Preferred Stock	$ 17,346	$ 18,275
Dividends on Common Stock	98,290	96,584
Per share of Common Stock	2.40	2.40
Average number of common shares outstanding	40,907,239	40,242,252
Average number of common shares outstanding—assuming full dilution	49,780,139	49,188,427
Capital expenditures	$ 151,105	$ 164,619
Depreciation and amortization	57,839	57,153
Total assets	$1,972,740	$1,857,651
Current assets	973,633	902,436
Current liabilities	246,530	330,647
Net current assets — working capital	727,103	571,789
Property, plant and equipment — net	686,235	627,927
Long-term debt (less current maturities)	389,698	296,094
Book value of Preferred Stock	80,199	85,783
Book value of Common Stock	1,172,610	1,041,004
Number of shareholders at year-end	126,790	137,504
Number of regular employees at year-end	26,315	28,255

To the Stockholders

We are pleased to report that consolidated net sales and operating revenues and consolidated net earnings for 1971 were the highest in the Company's history.

The improvement in net sales and operating revenues reflected sales increases in tobacco, food, and aluminum products and packaging operations. Tobacco sales increased five percent as a result of higher cigarette unit sales and the carry-over effect of the June, 1970 cigarette price increase. Transportation revenues declined four percent, principally as a result of the longshoremen's strikes. The aggregate sales of the businesses other than tobacco and transportation declined eight percent versus a year ago due to the exclusion of results of Penick & Ford, Limited after May 31, 1971, the effective date of the sale of that business.

Consolidated earnings from operations were up 14 percent over 1970. Tobacco earnings from operations increased 16 percent as a result of sales gains and reduced advertising expenditures, partially offset by rising manufacturing costs. The decline of 53 percent in transportation earnings from operations was attributable to the longshoremen's strikes coupled with increasing competition and higher operating costs. Near-term transportation operations may continue to be depressed by unsettled labor issues, uncertain world trade conditions, and continuing competitive and operating cost pressures.

Earnings from operations of the Company's other businesses increased $19,800,000 over 1970, principally the result of including the earnings from operations of American Independent Oil Company (Aminoil) for the entire year, whereas the 1970 figures included Aminoil only for its fourth fiscal quarter.

Pursuant to the Consent Decree entered into in September, 1969 with the United States Department of Justice, the Company sold, effective May 31, 1971, the business and substantially all of the assets of Penick & Ford, Limited. The loss of $41,151,000 resulting from the divestiture was charged to operations of 1969, the year the Consent Decree was signed. Additional information concerning the sale is included in Note K of Notes to Consolidated Financial Statements.

D. S. Peoples

A. H. Galloway

We are continuing our efforts to acquire United States Lines, Inc., but an early resolution of the controversy engendered thereby is not indicated. Details are presented in Note H of Notes to Consolidated Financial Statements.

In presenting to the press his annual report to Congress on smoking and health, the U. S. Surgeon General last month made the statement that there is no longer an honest disagreement among medical scientists about the hazards of cigarette smoking. The Tobacco Institute promptly called his statement false and "a gross insult to the scientific community." "It ignores the work of researchers cited in his own report," the Institute's reply continued. "It ignores the work of researchers which is mis-represented in his own report. It ignores the work of researchers which is inexplicably absent from his own report. Those who prepared the Surgeon General's report for him were careful to have it reviewed prior to publication by a number of persons known to share his opinion of smoking. They were just as careful not to submit the report to any of the many scientific experts who disagree with it."

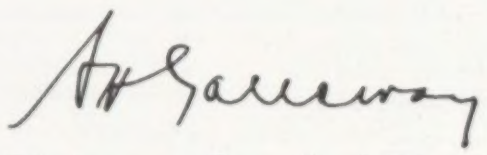
This vigorous response is evidence that The Tobacco Institute is becoming more aggressive in its efforts to defend the rights of individuals against the encroachments of big-brother government and the self-appointed guardians of the public good. We believe you will agree with us that such efforts as the Institute's are welcome and needed in these times when personal freedoms can no longer be taken for granted.

Excessive taxes on cigarettes at state and local levels continue to increase. We urge you to read the comments on page 25 of this report, setting forth the gross inequities of this punitive taxation. Whenever your state or local government should propose an increase in its cigarette tax, you could be of enormous assistance to the Company by writing to your state and local representatives and voicing your strong opposition.

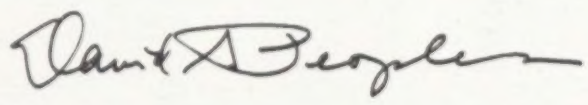
The current concern with ecology is a movement that we consider appropriate and worth while. In reviewing the Company's activities we have been greatly impressed with what has already been done in recent years to improve environmental quality. Our continuing programs are operating with gratifying success in such areas as the reduction of emissions into the atmosphere, the conservation of water, the disposition of wastes, noise control, and the prevention of ecological problems.

In closing, we want to pay tribute to those of the Company's employees whose loyalty and hard work made possible the accomplishments of the past year. To our stock-holders we express our gratitude for your support and your interest in the Company's progress.

Respectfully submitted for the Board of Directors.



Chairman, Board of Directors



President

February 18, 1972

Financial Review

Summary

Net sales and operating revenues for the year 1971 reached a record $2,546,012,000, up 2% over 1970's $2,484,599,000. Net earnings also increased to a record high of $225,928,000, 12% above the $201,885,000 reported in 1970. Net earnings per share increased 54 cents to $5.10 in 1971 over 1970's $4.56 based on a greater number of shares outstanding during 1971.

When compared with 1970, consolidated 1971 taxes on income represent a larger percentage of earnings before taxes on income because of high foreign tax rates on international petroleum operations.

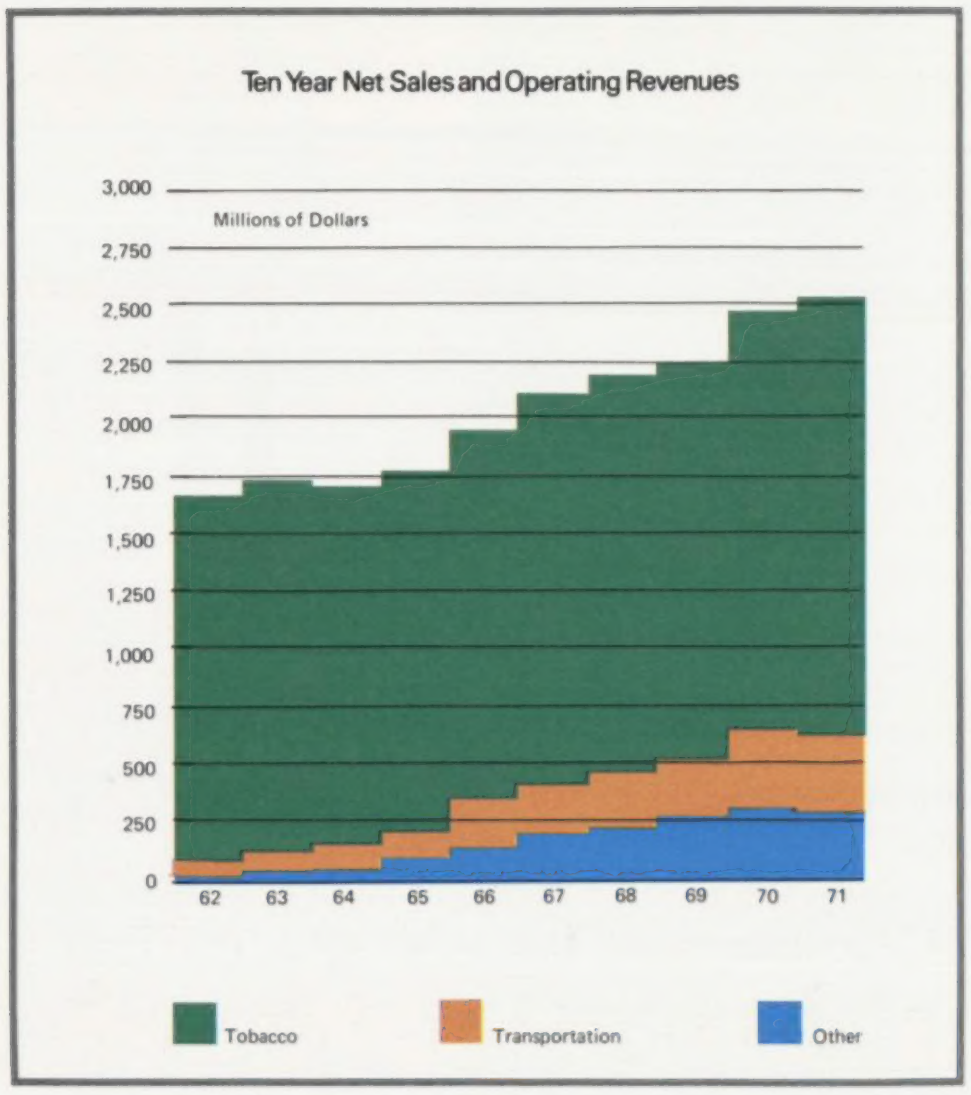
Net Sales and Operating Revenues

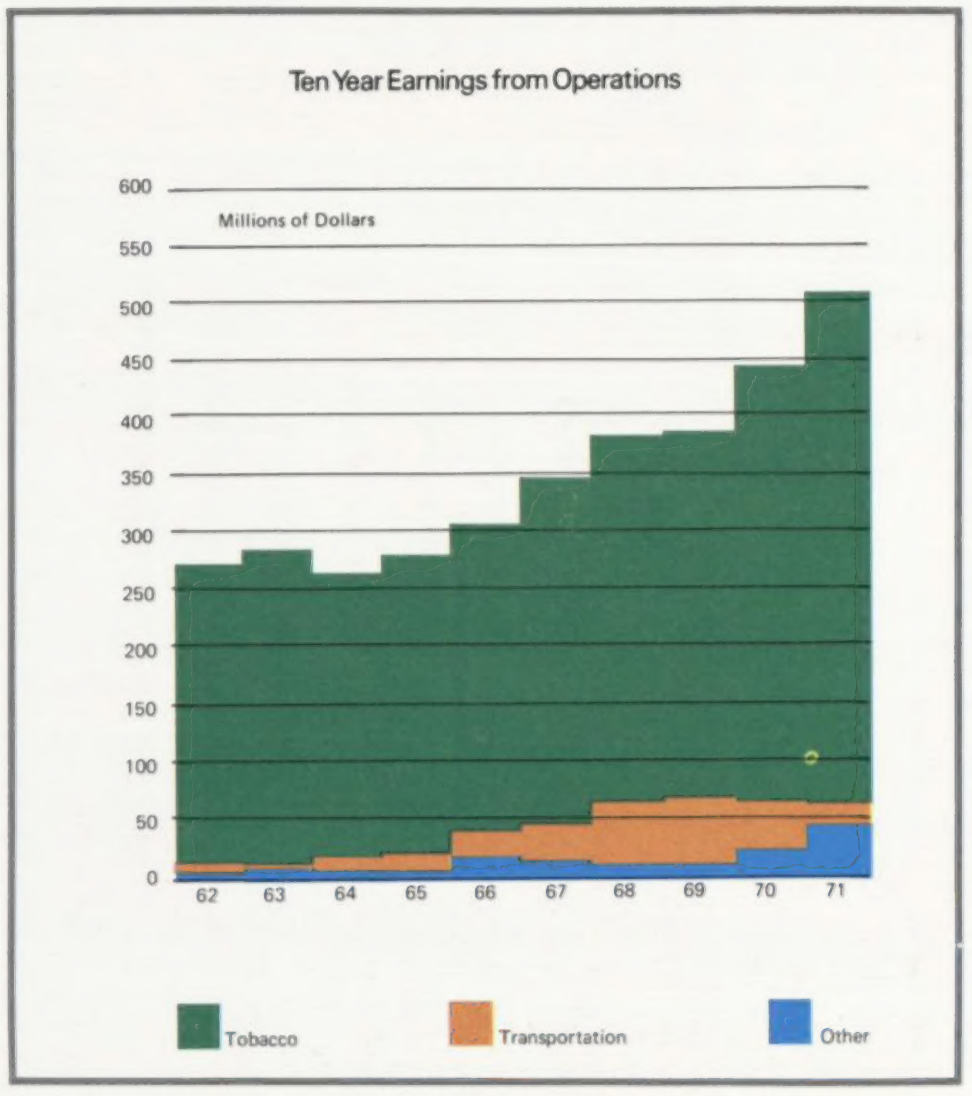
The improvement in consolidated net sales and operating revenues for the year reflected increases in tobacco, food, and aluminum products and packaging operations. Tobacco sales increased 5% as a result of higher cigarette unit sales and the carry-over effect of the June, 1970 cigarette price increase. (Tobacco sales included excise taxes of $729,457,000 in 1971 and $698,576,000 in 1970.)

Transportation revenues declined 4%, principally as a result of the longshoremen's strikes. The aggregate sales from the businesses other than tobacco and transportation declined 8% versus a year ago due to the exclusion of Penick & Ford, Limited's results after May 31, 1971, the effective date of the sale of that business.

NET SALES AND OPERATING REVENUES
(Dollars in Thousands)

	1971	%	1970	%
Tobacco	$1,914,147	75.2	$1,815,902	73.1
Transportation	360,592	14.2	374,906	15.1
Other	271,273	10.6	293,791	11.8
Consolidated	$2,546,012	100.0	$2,484,599	100.0





Earnings from Operations

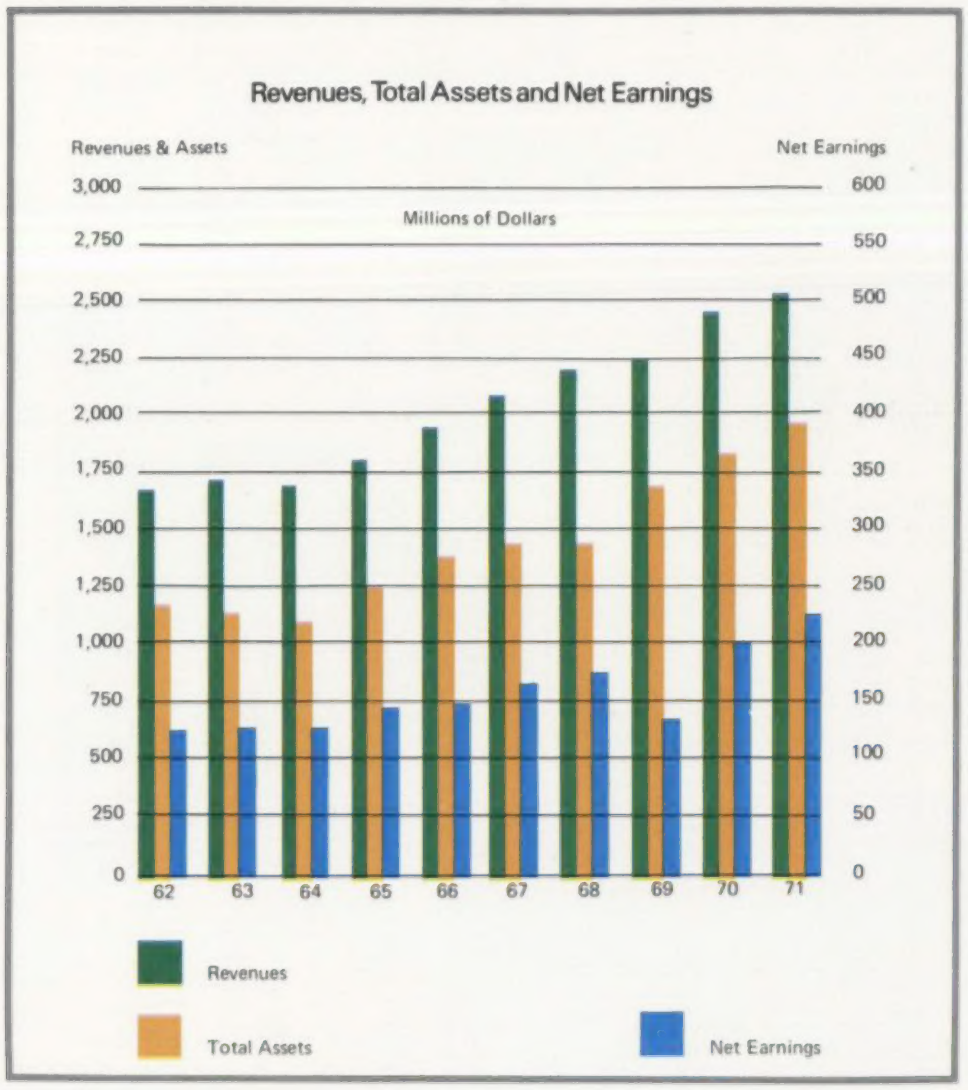
Consolidated earnings from operations of $508,796,000 advanced $62,282,000 or 14% over 1970's $446,514,000. Tobacco earnings from operations were up 16% as a result of sales gains and reduced advertising expenditures, partially offset by rising manufacturing costs. The level of 1971 advertising expenditures declined due to a federally imposed ban on cigarette advertising broadcasts, effective January 2, 1971. The decline in transportation earnings from operations is attributable to the longshoremen's strikes coupled with increasing competition and higher operating costs. Near-term transportation operations may continue to be depressed by unsettled labor issues, uncertain world trade conditions and continuing competitive and operating cost pressures.

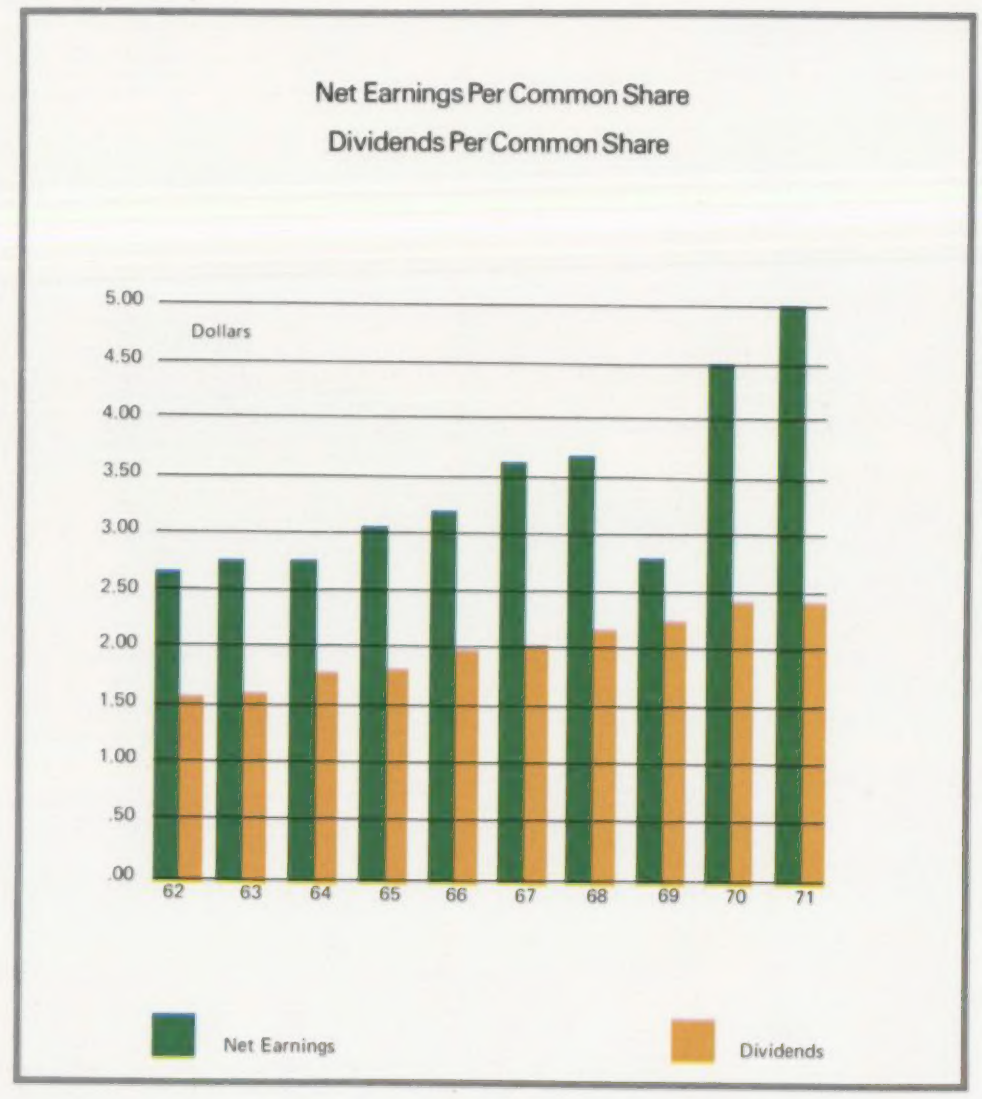
Earnings from operations of the Company's other businesses increased $19,800,000 over 1970. The increase resulted principally from including in the 1971 figures the earnings from operations of American Independent Oil Company (Aminoil) for the entire year while earnings from operations for 1970 included Aminoil's figures only for its fourth fiscal quarter.

EARNINGS FROM OPERATIONS*
(Dollars in Thousands)

	1971	%	1970	%
Tobacco	$ 445,423	87.5	$ 382,551	85.7
Transportation	18,242	3.6	38,632	8.6
Other	45,131	8.9	25,331	5.7
Consolidated	$ 508,796	100.0	$ 446,514	100.0

*Earnings before interest and debt expense, other income and expense, and provision for income taxes.





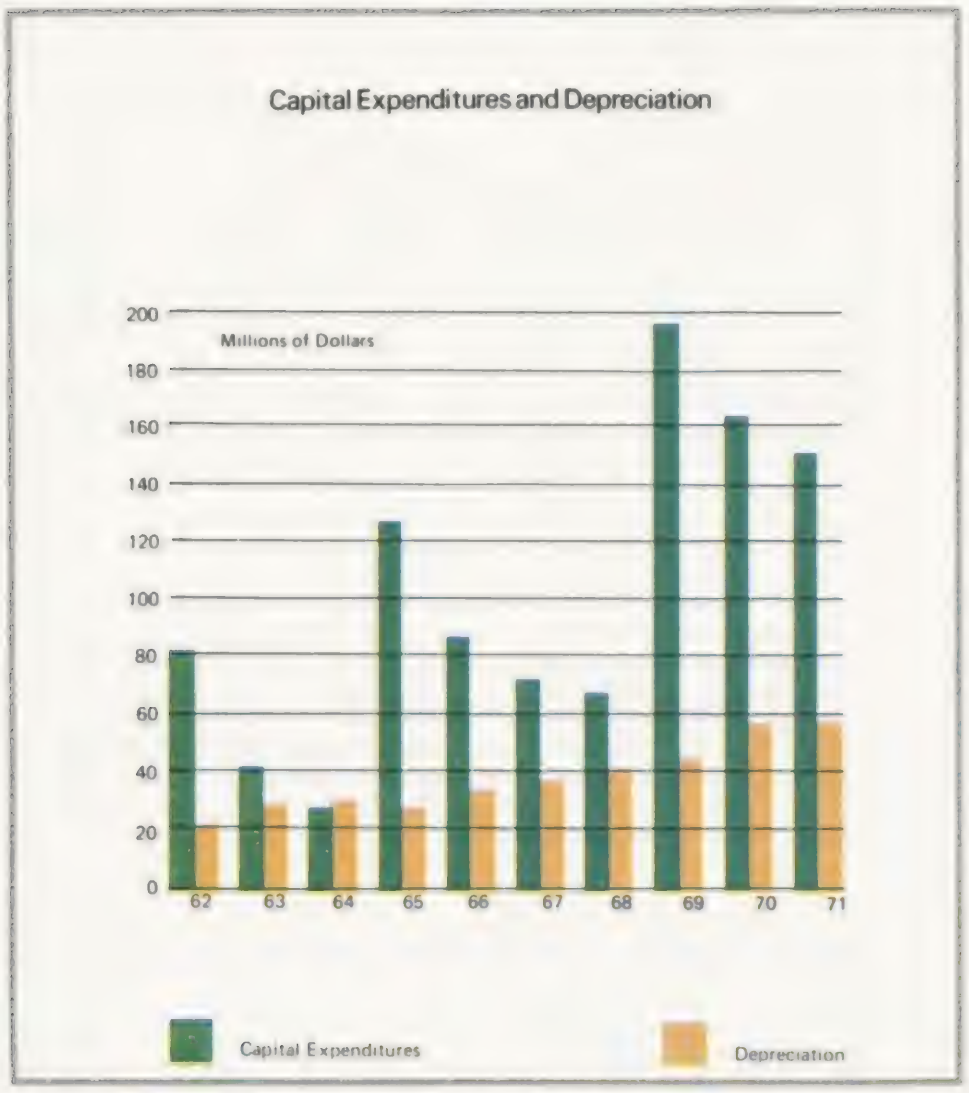
Dividends

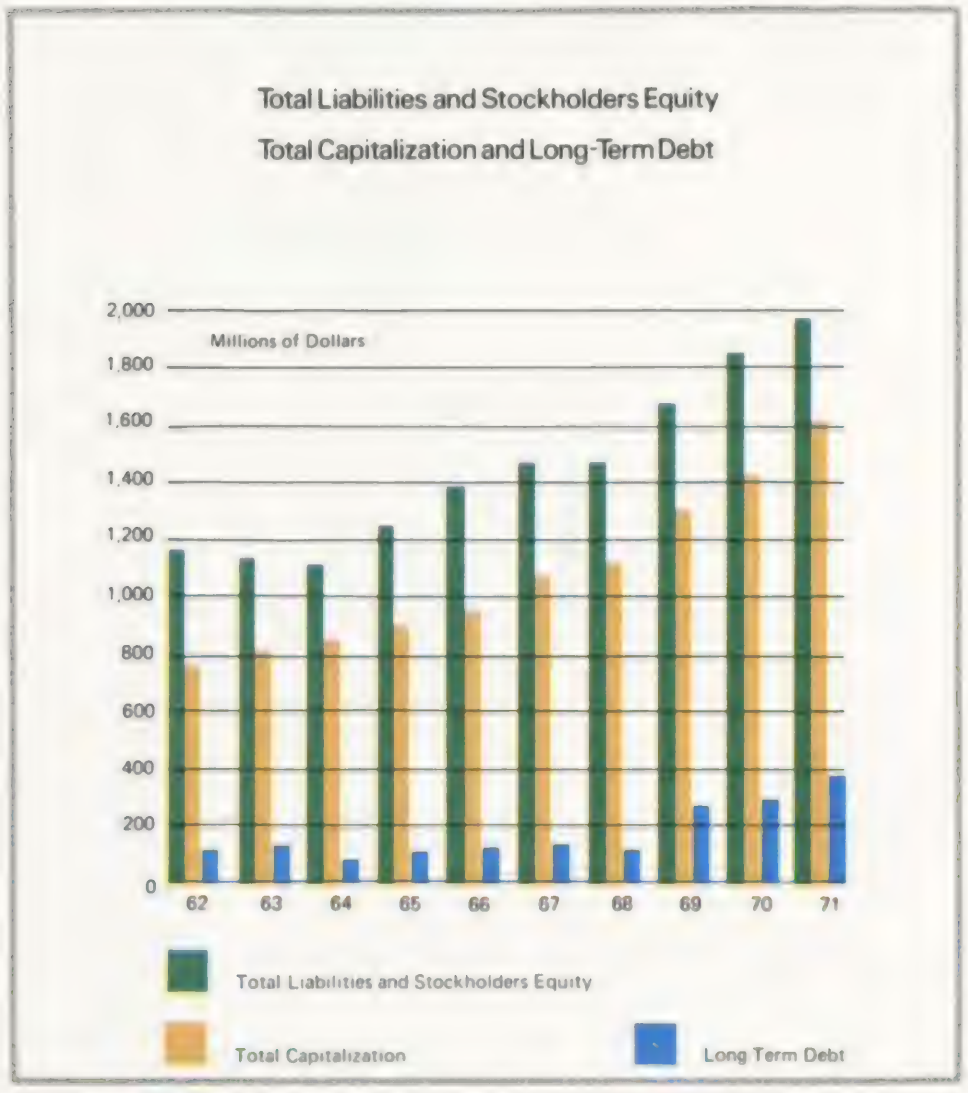
Aggregate dividends during 1971 on the Common and Preferred Stocks totaled $115,636,000 and represented the highest amount in the Company's 72 years of consecutive dividends. In accordance with the President's New Economic Program and the guidelines issued by the Committee on Interest and Dividends, the Company continued without increase its $.60 per share quarterly dividend rate on the Common Stock throughout 1971. On January 20, 1972, the Board of Directors of the Company declared a quarterly dividend on the Common Stock of $.624 per share payable on March 6, 1972. The new rate represents a 4% increase over the rate maintained in 1971, and is the maximum permissible increase under existing federal guidelines.

Debt Position

In April, 1971, the Company issued $100 million of 7⅜% Sinking Fund Debentures, due February 1, 2001, to reduce short-term indebtedness and provide additional working capital. As a result, the Company was substantially free of short-term debt during much of 1971 and had no short-term debt at year-end. At December 31, 1971, working capital amounted to $727 million versus $572 million a year ago.

The construction of eight super containerships in the Federal Republic of Germany and The Netherlands resulted in additional foreign borrowings of $59.4 million (at year-end exchange rates) under interim construction financing agreements with banks in those countries. It is estimated that the construction cost of these eight vessels will aggregate $399 million at current exchange rates. The Company was able to reduce slightly the impact of the dollar devaluation by contracting, beginning in 1970, for the future delivery of foreign currency. Of the total current project cost, $137 million had been paid as of December 31, 1971, of which $42 million had been supplied by the Company from internal funds and $95 million had been supplied by interim foreign bank financing. Of the remaining cost, plans call for $143 million to be supplied on an interim basis by the banks in Germany and





The Netherlands as construction progresses and $119 million from working capital. It is anticipated that the foreign banks will replace interim construction financing with long-term vessel mortgages as the vessels are completed. Delivery of two vessels is expected during 1972, and the remaining six vessels are expected in 1973 or early 1974.

Repayments of long-term debt in 1971 totaled $34,764,000, leaving a balance outstanding at year-end aggregating $389,698,000.

Capital Expenditures

Capital expenditures in 1971 were $151,105,000, compared to the 1970 total of $164,619,000. Of the 1971 expenditures, $133,557,000 or 88% related to the acquisition and construction of vessels and purchase of associated equipment to expand the containerized fleet of Sea-Land Service, Inc. The Company also continued modernization of tobacco manufacturing facilities and expansion and modernization of aluminum products and packaging and food processing facilities.

Capital expenditures in 1972 are currently estimated to reach a record high of $285 million, 90% of which will be outlays for the transportation business.

Sale of Penick & Ford, Limited

In September, 1969, the Company entered into a Consent Decree with the United States Department of Justice calling for divestiture of the corn wet milling and potato starch businesses of the Company's subsidiary, Penick & Ford, Limited. The Company sold, effective May 31, 1971, the business and substantially all of the assets of Penick & Ford, Limited. Proceeds from the sale, including tax benefits, amounted to $40,306,000. The loss of $41,151,000 resulting from the divestiture was charged to operations of the year 1969, the year the Consent Decree was signed. Additional information concerning the sale is included in Note K of Notes to Consolidated Financial Statements.

Ten Year Financial Summary

(Dollar Amounts in Thousands Except Share Statistics)

Year Ended December 31	1971	1970	1969
REVENUES, EARNINGS AND DIVIDENDS			
Net sales and operating revenues:			
Tobacco	$1,914,147	$1,815,902	$1,709,914
Transportation	360,592	374,906	280,334
Other	271,273	293,791	262,447
Total	$2,546,012	$2,484,599	$2,252,695
Earnings from operations:			
Tobacco	$ 445,423	$ 382,551	$ 319,746
Transportation	18,242	38,632	55,853
Other	45,131	25,331	12,551
Total	$ 508,796	$ 446,514	$ 388,150
Interest and debt expense	$ 29,293	$ 30,914	$ 23,092
Provision for income taxes	258,730	213,715	191,283
Net earnings	225,928	201,885	131,154 (1)
Dividends on Preferred Stocks (historical)	17,346	18,275	11,538
Dividends on Common Stock (historical)	98,290	96,584	90,530
FINANCIAL POSITION			
Working capital	727,103	571,789	622,881
Inventories	732,280	702,558	723,968
Total current assets	973,633	902,436	921,488
Net property, plant and equipment	686,235	627,927	524,876
Total assets	1,972,740	1,857,651	1,693,373
Short-term debt	—	136,444	116,622
Total current liabilities	246,530	330,647	298,607
Long-term debt (less current maturities)	389,698	296,094	274,031
Book value of Preferred Stock	80,199	85,783	85,774
Book value of Common Stock	1,172,610	1,041,004	951,799
OTHER INFORMATION			
Capital expenditures	151,105	164,619	197,903
Depreciation and amortization	57,839	57,153	45,369
Per common share:			
Earnings before extraordinary items	5.10	4.56	3.82
Net earnings	5.10	4.56	2.79
Per common share—assuming full dilution:			
Earnings before extraordinary items	4.54	4.10	3.57
Net earnings	4.54	4.10	2.72
Dividends per common share	2.40	2.40	2.25
Book value per common share	28.47	25.84	23.66
Average number of common shares outstanding	40,907,239	40,242,252	40,235,578
Average number of common shares outstanding—assuming full dilution	49,780,139	49,188,427	48,123,711
Number of shareholders at year-end	126,790	137,504	136,539

(1) Net earnings for 1969 are after an extraordinary charge of $41,151,000 relating to the sale of Penick & Ford, Limited (see Note K of Notes to Consolidated Financial Statements).

1968	1967	1966	1965	1964	1963	1962
$1,732,577	$1,695,181	$1,635,238	$1,601,014	$1,571,762	$1,632,892	$1,597,091
226,383	180,496	147,464	101,782	94,158	75,699	64,425
229,911	216,233	168,961	92,134	42,040	39,553	30,451
$2,188,871	$2,091,910	$1,951,663	$1,794,930	$1,707,960	$1,748,144	$1,691,967
$ 320,850	$ 300,533	$ 268,017	$ 261,873	$ 247,490	$ 275,194	$ 262,161
50,523	33,315	24,312	12,448	9,316	3,477	5,497
13,345	14,668	17,919	8,765	8,657	9,538	7,673
$ 384,718	$ 348,516	$ 310,248	$ 283,086	$ 265,463	$ 288,209	$ 275,331
$ 14,327	$ 16,104	$ 11,823	$ 7,108	$ 7,508	$ 10,458	$ 10,248
195,767	161,485	145,623	136,812	129,404	148,840	140,672
168,930	166,344	149,939	143,101	128,893	129,344	124,434
1,353	1,423	1,485	1,600	1,761	1,738	1,376
88,518	82,284	79,825	75,006	73,734	67,602	64,512
683,756	623,385	583,842	626,865	668,419	613,893	558,685
757,135	801,134	795,162	787,407	777,651	797,703	846,938
957,484	983,680	964,435	927,302	887,640	892,089	943,159
381,413	350,964	315,929	265,912	194,213	221,111	211,514
1,476,562	1,475,843	1,395,981	1,254,126	1,100,929	1,136,009	1,181,199
107,500	175,500	180,650	125,000	67,000	114,500	222,350
273,728	360,295	380,593	300,437	219,221	278,196	384,474
112,502	121,239	115,524	103,945	90,089	115,668	112,463
105,657	104,958	100,416	99,998	85,550	87,727	90,233
918,594	839,802	760,003	719,158	685,859	636,000	575,311
67,079	71,516	86,156	126,626	26,819	40,948	81,139
41,312	37,619	33,844	27,398	29,621	29,340	20,951
3.71	3.65	3.22	2.96	2.74	2.78	2.64
3.71	3.65	3.22	3.08	2.77	2.78	2.66
3.48	3.45	3.10	2.86	2.68	2.72	2.56
3.48	3.45	3.10	2.96	2.71	2.72	2.58
2.20	2.05	2.00	1.85	1.80	1.65	1.60
22.83	20.87	18.83	17.89	16.78	15.52	14.05
40,235,552	40,302,863	40,800,745	40,528,050	40,968,611	40,964,177	40,957,619
48,184,929	47,784,586	47,844,569	47,800,123	47,073,953	46,922,492	47,696,453
136,129	134,038	131,371	118,281	114,010	103,282	97,383

Consolidated Balance Sheets

December 31, 1971 and 1970
(Dollars in Thousands)

ASSETS	1971	1970
Current assets:		
Cash	$ 23,645	$ 48,367
Marketable securities—at cost or lower in 1971 (approximate market value) and at cost in 1970 (approximate market value — $4,250)	88,185	6,800
Accounts receivable (less allowances of $10,139 and $7,510, respectively)	124,620	139,044
Leaf tobacco, supplies, manufactured products, etc.—at cost (substantially all on last-in, first-out basis)	732,280	702,558
Prepaid expenses	4,903	5,667
Total current assets	973,633	902,436
Property, plant and equipment—at cost—Notes B, C and G:		
Land and land improvements	14,950	14,565
Buildings and leasehold improvements	123,397	141,342
Machinery and equipment	279,772	302,648
Vessels, containers and other marine equipment	499,083	439,913
Construction-in-process	160,050	88,821
	1,077,252	987,289
Less allowances for depreciation and amortization	391,017	359,362
Net property, plant and equipment	686,235	627,927
Investments in and advances to unconsolidated subsidiaries—Note A	107,030	96,271
Cost in excess of net assets of businesses acquired—Note A	155,099	185,888
Deferred charges and other assets	50,743	45,129
	$1,972,740	$1,857,651

See Notes to Consolidated Financial Statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	1971	1970
Current liabilities:		
Notes payable	$ —	$ 136,444
Accounts payable and accrued accounts	127,122	116,589
Current maturities of long-term debt—Note C	73,325	27,542
Income taxes accrued	46,083	50,072
Total current liabilities	246,530	330,647
Reserve for loss on sale of Penick & Ford, Limited—Note K	—	41,151
Other reserves and non-current liabilities	20,820	17,041
Deferred income taxes	62,883	45,931
Long-term debt (less current maturities)—Note C	389,698	296,094
Stockholders' equity—Notes D, E and K:		
Preferred Stock—$2.25 Convertible Preferred Stock—without par value		
Authorized—7,696,622 shares; issued—7,587,397 shares in 1971	80,199	85,783
Common Stock—Par $5		
Authorized—60,000,000 shares; issued—41,186,260 shares in 1971	205,931	201,451
Paid-in capital	27,232	10,398
Earnings retained	939,447	829,155
Total stockholders' equity	1,252,809	1,126,787
	$1,972,740	$1,857,651

See Notes to Consolidated Financial Statements.

Consolidated Statement of Earnings

For the Years Ended December 31, 1971 and 1970
(Dollars in Thousands)

	1971	1970
Net sales and operating revenues	$2,546,012	$2,484,599
Costs and expenses:		
Cost of products sold and operating expenses	1,808,159	1,772,238
Selling, advertising, administrative and general expenses	264,949	274,547
Earnings from domestic and Canadian operations	472,904	437,814
Equity in earnings from unconsolidated foreign operations	35,892	8,700
Earnings from operations	508,796	446,514
Interest and debt expense	29,293	30,914
Other (income) expense, net	(5,155)	–
Earnings before provision for income taxes	484,658	415,600
Provision for income taxes—Note I	258,730	213,715
Net earnings	$ 225,928	$ 201,885
Net earnings per common share	$5.10	$4.56
Net earnings per common share—assuming full dilution—Note J	4.54	4.10

Consolidated Statement of Earnings Retained

For the Years Ended December 31, 1971 and 1970
(Dollars in Thousands)

	1971	1970
Earnings retained at beginning of year:		
As previously reported		$ 809,417
Less adjustment to reflect the sale of Penick & Ford, Limited—Note K		41,151
As restated	$ 829,155	768,266
Add net earnings	225,928	201,885
	1,055,083	970,151
Deduct:		
Cash dividends:		
$2.25 Convertible Preferred Stock	17,346	18,275
Common Stock	98,290	96,584
Total cash dividends	115,636	114,859
Retirement of Common Stock held in treasury	–	26,137
Earnings retained at end of year	$ 939,447	$ 829,155

See Notes to Consolidated Financial Statements.

Consolidated Statement of Changes in Financial Position

For the Years Ended December 31, 1971 and 1970
(Dollars in Thousands)

	1971	1970
Source of working capital:		
Net earnings	$225,928	$201,885
Items not involving working capital in the current period:		
Add:		
Depreciation and amortization	57,839	57,153
Deferred income taxes	16,952	16,599
Other reserves and non-current liabilities	3,779	4,362
Deduct equity in undistributed net earnings of unconsolidated subsidiaries	1,929	4,499
Total from operations	302,569	275,500
Proceeds from long-term debt	174,151	54,406
Proceeds from issuance of Company's stocks	22,044	2,572
Disposals of property, plant and equipment	2,657	8,458
Net increase in working capital due to sale of Penick & Ford, Limited — Note K	26,808	—
	528,229	340,936
Use of working capital:		
Expenditures for expansion and modernization of property, plant and equipment	151,105	164,619
Investment in and advances to unconsolidated subsidiaries	8,830	73,123
Cash dividends	115,636	114,859
Long-term debt becoming currently payable	80,547	32,343
Retirement of Preferred Stock upon conversion	6,314	384
Other, net	10,483	6,700
	372,915	392,028
Increase (decrease) in working capital	$155,314	$ (51,092)
Analysis of changes in working capital:		
Increase in cash and marketable securities	$ 56,663	$ 8,414
Decrease in accounts receivable	(14,424)	(6,558)
Increase (decrease) in inventories	29,722	(21,410)
Increase (decrease) in prepaid expenses	(764)	502
Decrease (increase) in notes payable	136,444	(19,822)
Decrease (increase) in accounts payable and accrued accounts	(10,533)	7,120
Increase in current maturities of long-term debt	(45,783)	(4,147)
Decrease (increase) in income taxes accrued	3,989	(15,191)
Increase (decrease) in working capital	$155,314	$(51,092)

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

NOTE A – Principles of Consolidation and Other Matters.

The Company's consolidation policy is to include in its consolidated financial statements the accounts of domestic and Canadian operations after eliminating significant intercompany accounts and transactions. Foreign operations are included in consolidated earnings from operations, interest and debt expense, other income and expense, and provision for income taxes. American Independent Oil Company is included on this basis since date of acquisition, September 1, 1970. Investments in unconsolidated operations are carried at equity.

Foreign assets and liabilities (including vessels under construction and related debt) of the Company's operations, translated at appropriate exchange rates, are as follows:

(Dollars in Thousands)

	1971	1970
Assets	$369,817	$254,920
Liabilities . . .	195,495	105,043

The Company is not amortizing the cost in excess of the net assets of businesses acquired. The reduction in the account during the year is principally due to the sale of Penick & Ford, Limited (see Note K).

NOTE B – Property, Plant and Equipment.

Certain items amounting to $23,643,000 which were carried as leasehold improvements in the December 31, 1970 balance sheet have been retroactively reclassified as vessels, containers and other marine equipment.

During the year, depreciation and amortization charged against earnings totaled $57,839,000 compared with $57,153,000 in 1970. Depreciation on assets owned by the Company and its subsidiaries, other than assets used in the transportation business, was determined using accelerated methods for the most part for both book and income tax purposes. Depreciation on assets used in the transportation business was determined using the straight-line method for book purposes and accelerated methods for income tax purposes, and provision was made for deferred income taxes which may be payable in future years.

NOTE C–Long-Term Debt.

Long-term debt consists of the following:

2½% Promissory Note, due October 1, 1972	
3% Debentures, due October 1, 1973 (reduced by $5,000,000 and $4,514,000 of such debentures held by the Company on December 31, 1971 and 1970, respectively, for future sinking fund requirements)	
7% Subordinated Debentures, due June 1, 1989	
7⅜% Debentures, due February 1, 2001	
7⅞% Debentures, due September 1, 1994	
8⅛% Notes, due September 1, 1974	
Equipment obligations (6% to 9%), secured by liens on containers and equipment having a net book value of approximately $103,673,000, payable in monthly installments through 1978	
Vessel construction loans from various banks in the Federal Republic of Germany and The Netherlands, at rates varying from 8% to 8¾%	
Vessel mortgage notes payable in quarterly installments through December 31, 1976 with interest at the prime commercial rate plus ½%	
Other indebtedness	

Payment schedule of debt due after one year:

Due in:	
1973	$ 85,475 (1)
1974	64,432
1975	13,174
1976	8,172
1977 and thereafter	218,445
	$389,698

NOTE D – Capital Stock Redemption and Conversion Provisions and Substitute Stock Options.

Each share of the $2.25 Convertible Preferred Stock is convertible into 1.5 shares of the Company's Common Stock on surrender of the Preferred share and payment of $22 in cash. The

(Dollars in Thousands)

	December 31, 1971			December 31, 1970		
	Total	Due Within One Year	Due After One Year	Total	Due Within One Year	Due After One Year
. . .	$ 2,000	$ 2,000	$ –	$ 4,000	$ 2,000	$ 2,000
. . .	13,000	–	13,000	18,486	486	18,000
. . .	15,849	–	15,849	15,849	–	15,849
. . .	100,000	–	100,000	–	–	–
. . .	100,000	–	100,000	100,000	–	100,000
. . .	50,000	–	50,000	50,000	–	50,000
. . .	59,410	20,823	38,587	80,790	21,380	59,410
. . .	95,311	44,131 (1)	51,180 (1)	35,960	–	35,960
. . .	23,580	5,710	17,870	13,750	2,750	11,000
. . .	3,873	661	3,212	4,801	926	3,875
	$463,023	$ 73,325	$389,698	$323,636	$ 27,542	$296,094

(1) Vessel construction loans become due upon delivery of the vessels. Vessel construction loans are shown due in 1972 ($44,131,000) and due in 1973 ($51,180,000), although substantially all of these borrowings are expected to be refinanced with long-term vessel mortgages when they become due. See Note G.

Company may redeem the Convertible Preferred Stock after June 30, 1979, at $50 per share plus accrued dividends to the redemption date. The aggregate redemption value of shares outstanding at December 31, 1971, was $379,370,000. In the event of involuntary liquidation, holders of $2.25 Convertible Preferred Stock are entitled to $10.57 per share plus accrued dividends. Of the authorized but unissued common shares, 11,531,883 are reserved for conversion of 7,587,397 shares of $2.25 Convertible Preferred Stock issued and 100,525 of such shares issuable upon exercise of substitute stock options.

Substitute stock options for shares of $2.25

NOTE D – Continued

Convertible Preferred Stock were issued in accordance with the terms of the merger agreement with McLean Industries, Inc., on May 13, 1969.

These substitute options expire at various dates to January 7, 1974. Substitute stock option issue prices and activity during 1970 and 1971 are shown below:

	Shares			
Option price per share	$37.25	$40.00	$42.50	Total
1970				
Balance at beginning of 1970	208,175	1,000	7,300	216,475
Cancelled	4,075	1,000	–	5,075
Exercised	37,250	–	–	37,250
Balance, December 31, 1970	166,850	–	7,300	174,150
1971				
Cancelled	4,550		–	4,550
Exercised	66,175		2,900	69,075
Balance, December 31, 1971	96,125	–	4,400	100,525

NOTE E – Capital Changes.

The following changes in the Company's capital accounts have occurred during the two years ended December 31, 1971:

	Shares	Amount (In Thousands)
$2.25 Convertible Preferred Stock–Without Par Value ($10.57 per share stated value)		
Balance at beginning of 1970	8,114,810	$ 85,774
Sales under substitute stock options during 1970	37,250	394
Shares converted into Common Stock of the Company during 1970	(36,375)	(385)
Balance, December 31, 1970	8,115,685	85,783
Sales under substitute stock options during 1971	69,075	730
Shares converted into Common Stock of the Company during 1971	(597,363)	(6,314)
Balance, December 31, 1971	7,587,397	$ 80,199
Common Stock – Par $5		
Balance at beginning of 1970	40,971,639	$204,858
Shares issued during 1970 upon conversion of the Company's $2.25 Convertible Preferred Stock	54,562	273
Stock in treasury cancelled, June 29, 1970	(735,981)	(3,680)
Balance, December 31, 1970	40,290,220	201,451
Shares issued during 1971 upon conversion of the Company's $2.25 Convertible Preferred Stock	896,040	4,480
Balance, December 31, 1971	41,186,260	$205,931

NOTE E — Continued

	(In Thousands) 1971	1970
Paid-In Capital		
Balance at beginning of year	$ 10,398	$ 8,492
Proceeds ($22 per share) from conversion of the $2.25 Convertible Preferred Stock and the stated value ($10.57 per share) of the converted preferred shares less par value ($5.00 per share) of the common shares issued during the year	14,976	912
Proceeds from exercise of substitute stock options to purchase $2.25 Convertible Preferred Stock less the stated value of the shares issued during the year	1,858	994
Balance at end of year	$ 27,232	$ 10,398

NOTE F — Pension Plans.

The Company and its consolidated subsidiaries have several pension plans covering substantially all employees. The total expense for such plans for the year was $10,519,000 compared with $7,718,000 for 1970. Substantially all of these plans are funded under the aggregate cost method and the Company's policy with respect to these plans is to fund pension cost accrued. The total amount of assets so funded exceeded in the aggregate the actuarially computed value of vested benefits according to the most recent actuarial valuations. Contributions are also made to various plans administered by labor unions and established under the terms of collective bargaining agreements.

NOTE G — Commitments and Contingencies.

Leases and time charters for vessels and related equipment and facilities are used extensively in connection with the transportation business and generally provide for initial periods of ten years, with renewal periods of up to 30 additional years. Such lease and time charter expenses amounted to approximately $33,900,000 in 1971 and $32,435,000 in 1970 and are estimated to be $35,000,000 in 1972.

The Company is constructing eight super containerships in the Federal Republic of Germany and The Netherlands. Interim financing in the amount of $238 million (at December 31, 1971 exchange rates), being provided by banks in Germany and The Netherlands, is expected to be replaced in most part with long-term foreign financing as the vessels are completed. The summary below shows the estimated total cost of the eight vessels and estimated repayments for the planned long-term bank financing:

(Dollars in Thousands)

	Total Project Cost	Expended Through December 31, 1971	Remaining Commitments December 31, 1971
Bank Financing	$238,003	$ 95,311 (1)	$142,692
From Internal Funds	160,686	41,779 (2)	118,907
Total	$398,689	$137,090	$261,599

(1) At year-end exchange rates.
(2) At historical exchange rates.

NOTE G – Continued

Bank financing repayment schedule:
(Dollars in Thousands)

1972	$ 2,333
1973	14,798
1974	21,494
1975	21,496
1976	21,496
1977 through 1987	156,386
	$238,003

At December 31, 1971, the Company also had various other capital spending commitments of approximately $39 million.

At December 31, 1971, the Company was guarantor of indebtedness amounting to $35,327,000 which includes certain indebtedness of its unconsolidated subsidiaries and the guarantee referred to in Note K.

The Company or its subsidiaries are defendants in certain litigation other than that referred to in Note H below which in the aggregate is not expected to have any material adverse effect on the Company's financial statements.

NOTE H – United States Lines and Related Litigation.

On October 27, 1969, Sea-Land Service, Inc. and United States Lines, Inc. entered into a Time Charter and an Agreement of Lease and Sublease under which Sea-Land proposed to charter from United States Lines 16 containerships and to lease related equipment for a period of 20 years with an option to purchase at the end of the period. In November, 1969, American Export Isbrandtsen Lines, Inc. filed an antitrust suit in the United States District Court for the Southern District of New York seeking a preliminary as well as a permanent injunction against consummation of the charter and equipment lease, seeking an order that R. J. Reynolds Tobacco Company be required to divest itself of McLean Industries, Inc., the parent of Sea-Land, and that Walter Kidde & Company, Inc. be required to divest itself of its subsidiary, United States Lines, and asking for treble damages. The request for preliminary injunction was withdrawn in December, 1969, and, by stipulation, the entire case has been stayed pending a decision by the Federal Maritime Commission in proceedings for approval of the proposed charter and equipment lease. In the opinion of counsel, this suit is without merit as to Reynolds, McLean and Sea-Land.

On November 9, 1970, a merger agreement was entered into under which the Company would acquire all of the Common Stock of United States Lines for a $65 million promissory note of R. J. Reynolds Tobacco Company payable to Kidde. The note, due no later than November 9, 1976, will bear interest from November 9, 1970 at an annual rate of 8% plus interest at the rate of 6% per annum on deferred installments of interest. Applications for approval of the proposed merger have been filed with the Federal Maritime Commission and the Interstate Commerce Commission. If the necessary approvals are not obtained, Reynolds Tobacco will be obligated under a supplemental agreement with Kidde to produce equivalent consideration for Kidde within 24 months of any disapproval and in any event no later than November 9, 1976, and United States Lines will be sold or disposed of otherwise for the account of Reynolds Tobacco. The merger agreement modifies the proposed charter and equipment lease agreement referred to above and provides for termination thereof in the event the proposed merger is not approved.

On December 15, 1970, the Department of Justice filed an antitrust suit in the United States District Court for the District of New Jersey seeking an injunction prohibiting the proposed merger and an order rescinding the supplemental agreement. The Court denied the request of the Federal Maritime Commission for a stay of proceedings in the suit and held that the Commission does not have jurisdiction to approve mergers. The Court entered an order prohibiting consummation of the merger and of the supplemental agreement pending further order of the Court. A petition has been filed by the Company asking the U. S. Supreme Court to review the lower Court's holding.

Hearings before the Federal Maritime Commission in proceedings for approval of the proposed merger began February 17, 1971, and a decision of the Hearing Examiner, which is subject to appeal to the Commission, was served October 21, 1971. The Hearing Examiner recommended that the merger be disapproved. The Commission has ordered a reopening of the hearing, but no date has been set for such hearing. Hearings before the Interstate Commerce Commission in proceedings for approval of the proposed merger were held in August, 1971, but to date no decision has been handed down by the Hearing Examiner.

Since the Company cannot own or operate

United States Lines without the required Government approvals, neither the merger transaction nor the operating results of United States Lines have been included in the consolidated financial statements.

In August, 1971, John J. McMullen, a former officer of United States Lines, filed a suit in the United States District Court for the District of New Jersey seeking a permanent injunction prohibiting the consummation of the merger agreement and the supplemental agreement as being in violation of the antitrust laws. Damages are sought in excess of $50 million trebled for the alleged violation of the antitrust laws and additional damages in excess of $53 million are sought for alleged interference with plaintiff's contractual rights to purchase United States Lines. Defendants are R. J. Reynolds Tobacco Company, Sea-Land Service, Inc., and Malcom P. McLean, individually. In the opinion of counsel, this suit is without merit as to any of the defendants.

It is believed the outcome of the foregoing matters should have no material adverse effect on the financial statements of the Company.

NOTE I — Provision for Income Taxes.

Provision for income taxes includes current and deferred taxes in the following amounts:

(Dollars in Thousands)

	1971	1970
Current	$241,778	$197,116
Deferred	16,952	16,599
	$258,730	$213,715

Investment tax credits, $1,109,000 in 1971 and $2,614,000 in 1970, have been used to reduce the provision for income taxes in the year the credits became available.

When compared with 1970, the consolidated 1971 provision for income taxes represents a larger percentage of earnings before taxes on income because of high foreign tax rates on international petroleum operations.

Deferred income taxes result from differences between book and tax accounting for depreciation, vessel charter payments and pension expense. For book purposes, charter costs are expensed on a straight-line basis over the estimated vessel service life (generally 15 years). For tax purposes, vessel charter payments are deducted in accordance with charter agreements which generally provide for an initial 10-year period and renewals thereafter at reduced rates. The difference between charter costs for book and tax purposes is included as a deferred charge on the balance sheet.

There are a number of issues pending as a result of Internal Revenue Service audits of certain prior years, but the Company believes adjustments in the aggregate which may result will have no material adverse effect on the Company's financial statements.

NOTE J — Net Earnings Per Common Share — Assuming Full Dilution.

Net earnings per common share assuming full dilution are calculated using the treasury stock method for determining fully diluted shares. Under this method, it is assumed that all substitute stock options were exercised and that all shares of $2.25 Convertible Preferred Stock outstanding during the year (plus shares of $2.25 Convertible Preferred Stock which would have been issued on exercise of substitute options) were converted into Common Stock and the proceeds used to purchase treasury common shares at the higher of the average daily price or year-end closing price of the Common Stock. Under these assumptions there would have been 49,780,139 and 49,188,427 average common shares outstanding during 1971 and 1970, respectively.

NOTE K — Sale of Assets and Business of Penick & Ford, Limited.

On September 22, 1969, the Company entered into a Consent Decree requiring divestiture within two years of the corn wet milling and potato starch businesses acquired from Penick & Ford, Ltd., Inc. The Company sold effective May 31, 1971, the business and substantially all of the assets of its subsidiary, Penick & Ford, Limited, to a wholly owned subsidiary of VWR United Corporation of Seattle, Washington, for $29,388,000. Under the agreement, the Company has guaranteed the payment by the VWR subsidiary of a $15 million mortgage note secured by property formerly owned by Penick & Ford. In addition, the purchaser is obligated to make payments to the Company based on future sales by the VWR subsidiary of certain new products developed by the Company. Future benefits from this part of the agreement are not presently determinable and therefore are not included in the financial statements. The proceeds from the sale to the VWR subsidiary, together with proceeds from the sale of certain other Penick & Ford assets, and a tax benefit of $9,268,000 (principally from amounts classified for tax purposes as ordinary

NOTE K – Continued

losses), amounted to $40,306,000. (Since $13,498,000 of the proceeds related to the disposition of working capital items, the sale resulted in a net addition to working capital of $26,808,000 as shown in the Statement of Changes in Financial Position.) Inasmuch as the Penick & Ford assets disposed of had a book value of $81,457,000, disposition at the aforementioned $40,306,000 resulted in a loss of $41,151,000. In accordance with generally accepted accounting principles, the loss has been treated as a prior period adjustment (pertaining to 1969, $1.03 per share in that year). Accordingly, the 1970 consolidated financial statements retroactively reflect the $41,151,000 decrease in earnings retained and the establishment of a reserve for such amount. As a result of the sale, a net capital loss for tax purposes of $29 million is available to offset capital gains which might arise within the next five years. The consolidated financial statements include the accounts of Penick & Ford to May 31, 1971. Net sales and net earnings for Penick & Ford included in 1971 results amount to $27,388,000 and $220,000, respectively, and in 1970, $62,582,000 and $1,325,000, respectively.

REPORT OF INDEPENDENT ACCOUNTANTS

ERNST & ERNST

Fourth & Main Streets
Winston-Salem, N. C.

R. J. Reynolds Industries, Inc.
Its Directors and Stockholders

We have examined the consolidated financial statements of R. J. Reynolds Industries, Inc. and consolidated subsidiaries for the two years ended December 31, 1971. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Our original opinion covering the December 31, 1970 financial statements was qualified for adjustments, if any, that might result from the divestiture of Penick & Ford, Limited as required by a Consent Decree agreed to on September 22, 1969. A provision for the loss of $41,151,000 (see Note K) has been reflected as a prior year adjustment (pertaining to 1969, the year of the Consent Decree) and the financial statements for the year 1970 have been restated to reflect this provision. Accordingly, the qualification in our opinion on the financial statements for that year has been removed.

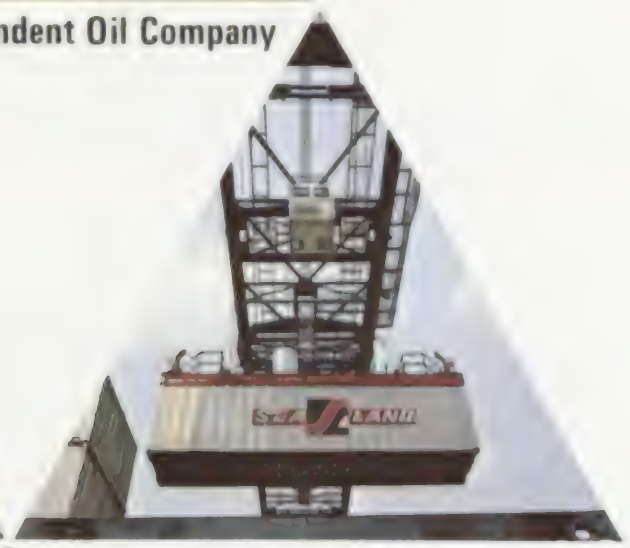
In our opinion, the accompanying balance sheet and statements of earnings, earnings retained, and changes in financial position present fairly the financial position of R. J. Reynolds Industries, Inc. and consolidated subsidiaries at December 31, 1971 and 1970, and the results of their operations, changes in financial position and changes in stockholders' equity for each of the two years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Ernst

February 15, 1972

American Independent Oil Company

RJR Foods, Inc.



Sea-Land Service, Inc.

RJR Archer, Inc.

R.J.Reynolds Tobacco Company

RJR

R.J.Reynolds Industries, Inc

Tobacco

R.J.Reynolds Tobacco Company
Winston-Salem, North Carolina
Colin Stokes, Chairman
and Chief Operating Officer
William S. Smith, President
and Chief Executive Officer

R. J. Reynolds Tobacco Company *is the nation's leading manufacturer and exporter of cigarettes, producing the popular* Winston, Salem, Camel, Doral *and* Vantage *brands. The company also produces smoking tobaccos and plug chewing tobaccos, including* Prince Albert, *the nation's best-selling smoking tobacco, and* Days Work, *the best-selling plug chewing tobacco.*

With record sales accounting for nearly one-third of the cigarette industry's domestic sales, R. J. Reynolds Tobacco Company brands continued to include the best-selling regular, filter and menthol cigarettes during 1971.

The Maxwell Report, generally recognized as the most authoritative study of U. S. cigarette consumption, again placed ***Winston*** as the nation's best-selling cigarette, far ahead of the next best-selling brand. ***Salem*** was ranked fourth overall and the leader in the menthol category. Both brands increased in unit sales during the year. ***Camel*** continued to lead the regular non-filter category and was ranked as the sixth best-selling cigarette in the nation, although declining in volume because of the growing consumer preference for filter cigarettes. ***Winston*** Super King and ***Salem*** Super King grew in sales during the year and led the 100 mm categories. Other significant brand performances included the success of the company's ***Doral*** and ***Vantage*** brands. While relative newcomers to the market place (***Doral*** introduced nationally in 1969, and ***Vantage*** introduced nationally in 1970), both brands have managed to secure positions among the top 25 best-selling brands in the country, giving the company good representation among the low "tar" and nicotine brands.

Closely watching the various market segments, the company continued its efforts in new product development during the year. ***Vantage*** Menthol went into national distribution in late

spring and ***Winchester*** little cigars appeared in test markets in September. Early reports indicated that consumer acceptance of ***Winchester*** was exceeding original expectations. As a result of the very encouraging acceptance, plans were completed at the close of 1971 to expand the product's market area to include the New York City metropolitan area and several other urban areas.

Among the company's smoking tobacco brands, ***Prince Albert*** maintained its position as the nation's best seller and ***Carter Hall*** grew in sales. ***Carter Hall***'s growth during 1971 came despite an industry-wide decline in total smoking tobacco sales. Historically, when cigarette sales go up, smoking tobacco sales tend to suffer.

The company also continued to have the best-selling plug chewing tobacco brand in the country in ***Days Work*** even though the brand and industry-wide plug chewing tobacco sales were down.

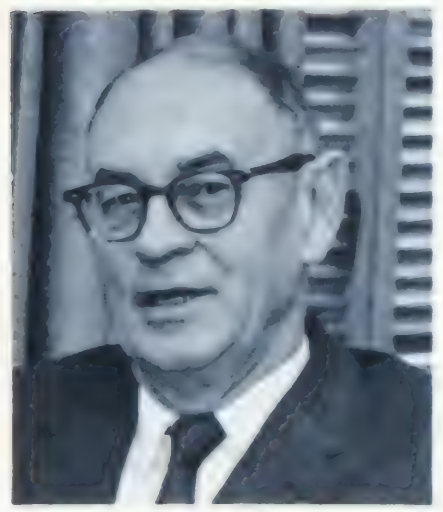
Advertising expenditures for the cigarette industry were estimated to be down about 25 to 30 percent in 1971, due to the exclusion from radio and television advertising. Magazines, newspapers and outdoor advertising were utilized more than in recent years, and the company began sponsoring special events designed to keep the brands' names before the public.

Winston is heavily involved with stock car racing, bowling and rodeo. ***Salem*** shares involvement with ***Winston*** in bowling, and ***Doral*** sponsors a national recreational skiing program. These programs provide an opportunity for promotional activity in and around the site of the sporting events, and identification of a brand with a particular sport appears to be successful in creating awareness among the sport's fans.

The company has become increasingly concerned about discriminatory and punitive cigarette taxation and, along with the Tobacco Tax Council, is strengthening its effort to combat this continued threat to sales.

The Tobacco Tax Council, a national organization of tobacco growers, manufacturers, wholesalers and retailers, has increased its activities to make state taxing authorities and others at all levels of government aware of the inequities of excessive taxes on cigarettes. These burdensome tax rates not only imperil cigarette sales, but also impose injustice upon smokers who secure no additional benefit or governmental service by virtue of paying the tax. The tax is especially discriminatory against low-income consumers.

Despite the intensified efforts of the Tobacco Tax Council, New York City and 16 states increased cigarette taxes an average of four cents per pack in 1971, resulting in an estimated sales volume loss of eight percent in those areas. Today various state, local and federal taxes make up half of the national average retail price of a pack of cigarettes, making cigarettes one of the highest taxed consumer products in the nation. The outlook for 1972 is for about the same number of states to increase their taxes, but the company, in cooperation with the Tobacco Tax Council, is fighting harder than ever against such increases.



Colin Stokes

William S. Smith

International Tobacco Operations

In foreign activity Reynolds remained the nation's leading exporter of cigarettes and

continued to increase its manufacturing facilities abroad. During the year two new cigarette manufacturing plants designed to meet the increased demand in Europe began operation. A new plant began operation in Trier, West Germany near the end of 1971, manufacturing *Camel, Camel* Filter, *Reyno (Salem)* and a popular German brand, *Overstolz.* Another new plant in Dagmersellen, Switzerland, produces *Camel, Camel* Filter, *Reyno* and *Winston.*

The company's foreign operations were further consolidated during 1971 and the name of the European company was changed from R. J. Reynolds (Europe) S.A. to R. J. Reynolds Tobacco International, S.A.

Reynolds now markets cigarettes in more than 100 countries and plans to continue expanding its international operations.

R. J. REYNOLDS TOBACCO INTERNATIONAL, S. A.
Geneva, Switzerland
JACQUES E. BORIN, President

REYNOLDS-NEUERBURG G. m. b. H.
Cologne, West Germany
JÜRGEN HANSEN, General Manager

REYNOLDS CIGARETTE CORPORATION
Dagmersellen, Switzerland
MAURICE PERRET, Manager

R. J. REYNOLDS TOBACCO (HONG KONG), LTD.
Hong Kong
E. J. SNYDER, Managing Director

THEODORUS NIEMEYER, N. V. (Licensee)
Groningen, Holland

AUSTRIA TABAKWERKE, A. G. (Licensee)
Vienna, Austria

SYLVANA TOBACCO CORPORATION (Licensee)
Manila, Philippines

TABACALERA NACIONAL, S. A. (Licensee)
Lima, Peru

CARIBBEAN-CANADIAN-MEXICAN DIVISION
Winston-Salem, North Carolina
DAVID R. BLANCO, Managing Director

R. J. REYNOLDS TOBACCO COMPANY
San Juan, Puerto Rico
P. K. McKNIGHT, General Manager

FABRICA de CIGARROS BALOYAN, S. A.
Tijuana, Mexico
B. T. TROY, President

GLENN TOBACCO COMPANY
Athens, Greece
WILLIAM K. GREER, Vice President and General Manager

Containerized Freight Transportation

Sea-Land Service, Inc.
Elizabeth, New Jersey
Michael R. McEvoy, Chairman
Paul F. Richardson, President

Sea-Land Service, Inc. *combines the flexibility of over-the-road trucking with the efficiency and low cost of waterway shipping. It currently serves 72 port terminals in 28 countries with 47 regularly scheduled containerships, 14 container relay vessels and 47,000 computer-controlled containers.*

Michael R. McEvoy

Paul F. Richardson

Expanded service, increased fleet capacity and numerous equipment additions during 1971 helped Sea-Land Service, Inc. strengthen its potential to offer superior service to the shipping public.

Sea-Land's world-wide shipping network was increased during last year by the inauguration of West Coast/Far East westbound sailings from Seattle, Oakland and Long Beach with regularly scheduled direct service to the Japanese ports of Yokohama and Kobe; Okinawa Korea, Hong Kong and other

parts of the Orient. Expansion in the Caribbean during 1971 included a new service to St. Maarten and the sailing of the first fully containerized vessel of Sea-Land's Gulf/Puerto Rico Lines in service between New Orleans and Puerto Rico.

Beginning service with the Sea-Land fleet during 1971 were the newly constructed SL-180 and SL-181 containerships. These new vessels each have a capacity of 731 containers (550 35-footers, 181 40-footers) and speeds up to 23 knots. Work continued during the year on the SL-7 construction program under way in Europe on eight high-speed containerships each of which will be capable of carrying 1,096 containers (896 35-footers, 200 40-footers) at a speed of 33 knots. Delivery of the first vessel is expected by the middle of 1972, with the full order expected to be in service by 1974.

At Sea-Land port installations last year four new A-frame shore cranes were installed, bringing the number of cranes in service at year end to 31, and work was completed on two 600-foot wharves in San Juan, providing the company with a total of 3,000 linear feet of wharf space at this busy and strategic Caribbean port.

In Vancouver, British Columbia, a new facility to handle both truck and rail cargoes was put into service. Two new maintenance garages began operation in Europe during the year—one in Rotterdam and one in Le Havre. These new facilities will greatly expedite the repair and overhaul of container vehicles serving the continent and help Sea-Land assure its reputation for reliable service.

John Phillips

Foods and Beverages

RJR Foods, Inc.
New York, New York
John Phillips, President

RJR Foods, Inc. *markets a variety of convenience foods and beverages, including* Chun King *Oriental foods,* Patio *Mexican foods,* Hawaiian Punch *beverages,* Vermont Maid *syrups,* Brer Rabbit *molasses and syrups,* College Inn *foods,* My*T*Fine *desserts and* Filler *snack foods.*

The success of a number of new products joining the already popular brands of RJR Foods, Inc. during the year helped the company increase its sales and profits.

The completely new line of ***Chun King*** Skillet Dinners and three new flavors of ***Hawaiian Punch***—Mandarin Cooler, Cool Citrus and Cherry Royal—introduced nationally last year have already met with gratifying consumer acceptance. Also during the year, ***Patio*** five-course frozen Mexican dinners were expanded from test market to national distribution with encouraging results. ***My*T*Fine*** Rich 'n Ready puddings in the easy-open, individual-serving cans have just completed their first

full year in national distribution and are making a significant contribution to overall sales.

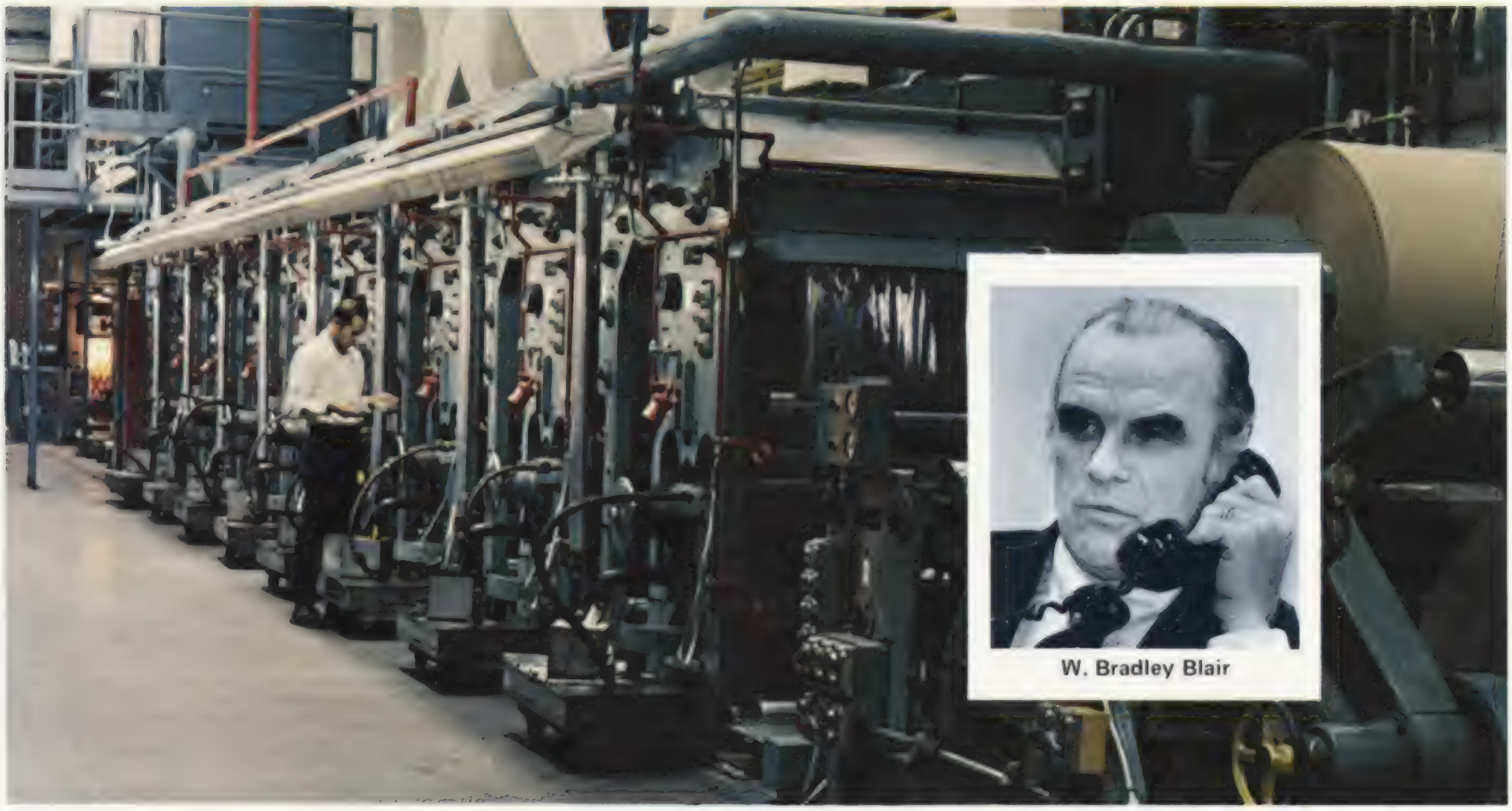
The ***Chun King*** Skillet Dinners exemplify a product meeting the principal objectives of the company's development program. Available in Pepper Steak, Egg Foo Young, Sweet and Sour, Chow Mein, Chop Suey and Sukiyaki, the Skillet Dinners afford housewives an opportunity to prepare economical, appetizing meals for their families with the utmost convenience.

The new product activity is part of RJR Foods' overall effort to meet consumer tastes and demands and obtain its share of the growing food industry which is expected to reach annual retail sales of $100 billion within the next five years.

Considerable energy was devoted during the year to improving manufacturing facilities and distribution channels. A new can-making plant at Plymouth, Indiana began operation during the year and numerous other facilities increased their efficiency. A program to improve distribution of Foods brands was inaugurated last year, and included the establishing of five strategically located consolidated distribution centers.

In addition to achieving an overall sales increase last year, RJR Foods also continued brand leadership, setting the industry pace with ***Hawaiian Punch*** fruit punch, ***Chun King*** Oriental frozen and canned foods, ***Brer Rabbit*** molasses, ***Patio*** frozen Mexican foods and ***College Inn*** chicken broth.

Aluminum Products and Packaging



W. Bradley Blair

RJR Archer, Inc.
Winston-Salem, North Carolina
W. Bradley Blair, President

RJR Archer, Inc. *produces specialty foil and sheet aluminum products, flexible packaging materials, florist foil materials, gift wrapping and protective vinyl wrap.*

By adjusting to meet fluid market conditions and installing new equipment RJR Archer, Inc. was able to report increases in sales and profits for 1971.

The metals division was affected by price cutting, particularly on aluminum foil, the division's major product. However, it ended the year with a moderate sales increase. Two of the products making significant contributions to the division's success during the year were litho sheet, used to manufacture printing plates for offset presses, and a specially produced foil used in the manufacture of laminated plastic surface materials.

While many competitors were faced with idle capacity during 1971, Archer's packaging division increased its rotogravure printing capacity to meet its increased sales demands. The division installed a new eight-color press, which, with its advanced electronic register and tension control systems, sets the packaging industry benchmark for automated equipment.

Increased competition in the gift wrap industry depressed prices of some lines in 1971. However, the consumer products division was able to offset the effects of the depressed gift wrap prices by significantly increasing sales of household foil.

The Filmco division, which specializes in film wrap materials, reported increased sales last year and significant reduction in costs and waste.

Filmco's international operations also experienced continued sales growth and added another extruder at its film wrap manufacturing plant in Sedgefield, England.

Petroleum

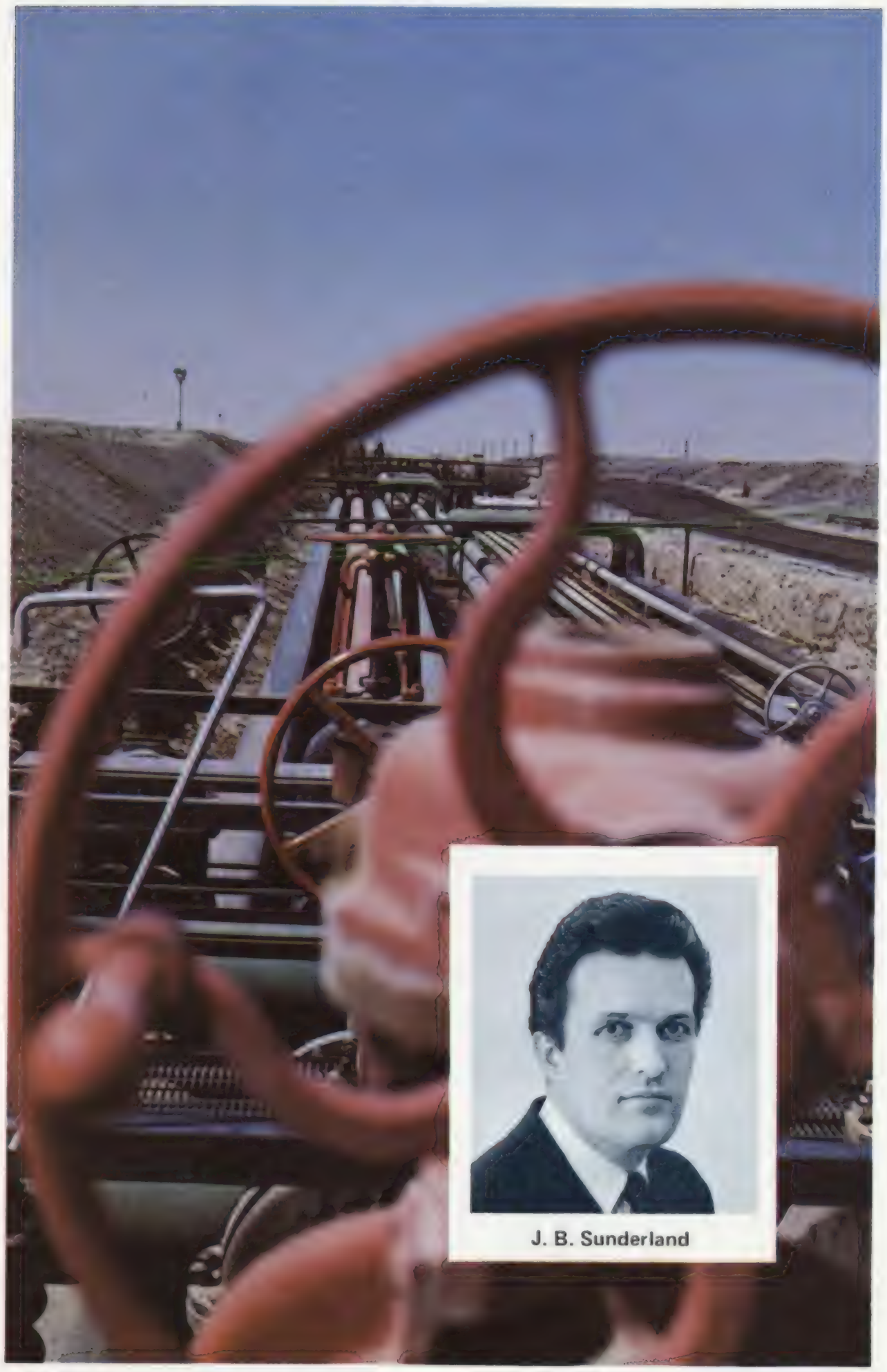
American Independent Oil Company (Aminoil) reported increased sales for 1971. However, shipments dropped sharply in the last two months of the year because of customer inventory levels and unseasonably warm weather.

In addition to strengthening its sales efforts during 1971, Aminoil also continued its search for concession opportunities throughout the world. Early in the year, Aminoil entered an oil exploration and development agreement covering areas offshore Indonesia along the west coast of Java and south coast of Sumatra and encompassing approximately 17 million acres. While the first three exploratory wells drilled in this region failed to produce, geological interpretations appear to warrant further exploration.

Aminoil has a new partner for exploration in Ecuador, where the company feels prospects are encouraging. There were no major developments in Aminoil's concession area during 1971, but seismic studies were continued to determine the best location for further drilling.

Aminoil operated in Iran during most of 1971 under a revised agreement reached with the Iranian government early in the year covering increased posted prices and an increased tax rate. As 1971 ended, revisions to the agreement were being negotiated by the Iranian consortium of which Aminoil is a member.

Likewise, the end of the year also saw negotiations continuing with the Kuwait government. Aminoil's desulfurization plant in Kuwait reported steady improvement in its operation during the year and continued to improve the marketability of Kuwait's high sulfur content oil.



J. B. Sunderland

American Independent Oil Company
New York, New York
J. B. Sunderland, President

American Independent Oil Company *is an independent oil producer and refiner. Its principal sales are to other oil companies. Aminoil's primary source of oil is in the Partitioned Zone between Kuwait and Saudi Arabia. Its refinery and desulfurization plant are in Kuwait.*

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R. J. Reynolds Tobacco Company

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J. W. DOWDLE
Treasurer

R. A. EMKEN
Comptroller

R.J.Reynolds Industries, Inc.

Registrar

MANUFACTURERS HANOVER TRUST COMPANY
Corporate Trust Division
4 New York Plaza
New York, New York 10015

Transfer Agents

THE CHASE MANHATTAN BANK, N.A.
1 Chase Manhattan Plaza
New York, New York 10015

FIRST JERSEY NATIONAL BANK
1 Exchange Place
Jersey City, New Jersey 07303

Stockholder Inquiries

Communications concerning transfer requirements and lost certificates should be directed to either Transfer Agent. Communications concerning dividends and change of address should be directed to R. J. Reynolds Industries, Inc., Stockholder Records Department, Box 2959, Winston-Salem, North Carolina 27102.

Notice of Annual Meeting

The Annual Meeting of the Company's stockholders will be held on April 26, 1972 in the Nemours Building, 10th and Orange Streets, Wilmington, Delaware, at 2:00 p.m., EST. A formal notice of the meeting, together with Proxy Statement and Proxy, will be mailed to stockholders of record at the close of business February 29, 1972.

Consumer Products

R.J.Reynolds Tobacco Company

Cigarettes — filter, non-filter, menthol
Smoking Tobaccos — pipe tobaccos ranging from non-aromatic to full-aromatic, cigarette cut tobaccos, granulated tobaccos
Chewing Tobaccos — plug and twist tobaccos

RJR Foods, Inc.

Chun King Oriental Foods
- canned and frozen dinners and entrees
- frozen appetizers
- canned ingredients
- sauces and specialties

My*T*Fine
- cooked pudding and pie fillings
- canned puddings in individual servings

Hawaiian Punch
- canned and frozen fruit punches
- bottled fruit punch concentrate

Patio Mexican Foods
- frozen appetizers, entrees and dinners

College Inn Specialties
- canned chicken and beef broth
- chicken entrees
- whole and boned chicken

Brer Rabbit
- molasses
- blended cane-corn and cane-sugar syrups

Vermont Maid Syrup

Filler Snacks
- flavored, corn- and meat-base snacks
- fried and baked gourmet snack items

Davis Baking Powder

RJR Archer, Inc.

decorative bows, foil and paper gift wraps
household foils
florist foils and ribbons

RJR

Annual Report 1971

RJR

R.J.Reynolds Industries, Inc.
Winston-Salem, N.C. 27102